

VZCZCXRO4257
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEHSA #1247/01 1701455
ZNR UUUUU ZZH
R 191455Z JUN 09
FM AMEMBASSY PRETORIA
TO RUEHC/SECSTATE WASHDC 8848
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHJO/AMCONSUL JOHANNESBURG 9314
RUEHTN/AMCONSUL CAPE TOWN 6950
RUEH DU/AMCONSUL DURBAN 1069

UNCLAS SECTION 01 OF 04 PRETORIA 001247

DEPT FOR AF/S/; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR TRINA RAND
USTR FOR JACKSON

SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)
PGOV, SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER JUNE 19, 2009
ISSUE

PRETORIA 00001247 001.2 OF 004

¶1. (U) Summary. This is Volume 9, issue 24 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:

- Weak Exports Put Pressure on Current Account Deficit
- Consumers Avoid Spending
- Employment Outlook Still Weak
- Zuma and Manuel Scold COSATU for Threats of Labor Unrest
- Minister Holds Out Olive Branch to White Commercial Farmers
- Trade and Industry Minister Discusses Future of South African Trade Policy
- Delta Suspends Cape Town Flight
- South African Tourism Resilient During Tough Times
- Gold Firms and Unions Meet Over Wages
- Westinghouse Expert to Highlight Chinese Localization Model During Visit to South Africa
- Poverty and Dropout Rates

End Summary.

Weak Exports Put Pressure on Current Account Deficit

¶2. (U) South Africa's deficit on the current account widened from 5.8% of GDP in the fourth quarter of 2008 to 7% of GDP in the first quarter of 2009, way above consensus forecasts for a deficit of 6% of GDP. The key driver of the deterioration in the current account deficit was the worsening in the trade balance, which widened from 0.8% of GDP in fourth quarter to 2.3% of GDP in the first quarter, with exports diving by an annualized rate of 19.4%, the fastest on record. Analysts believe that weak domestic demand conditions, some improvement in the global outlook in the second quarter of 2009, and downward pressure on interest and dividend payments to non-residents owing to weak company profits should keep the deficit in check for the remainder of 2009. As for financing the current account deficit, analysts believe that the global South Africa economic environment has improved, and is likely to improve further, as investors become more willing to purchase South African equity and securities. (Business Day & ABSA Newsletter, June 19, 2009)

Consumers Avoid Spending

¶3. (U) Retail sales dropped by 6.7% year-on-year (y/y) in April as the economic climate put the brakes on consumer spending, according to Statistics South Africa figures. This follows a 4.9% decline in March. South Africa has now entered its first recession in 17 years and households' unhealthy finances combined with job losses and concerns about job security are weighing heavily on consumers. April's retail sales figure was partly due to the Easter holidays and the national elections falling in April this year and contributing to weak demand. Economists are expecting retail sales to stabilize towards the end of the year as lower interest rates work their way through the country's economy. (Fin24, June 17, 2009)?

Employment Outlook Still Weak -----

¶4. (U) The overall environment for employment in South Africa has become much more negative, according to the latest Adcorp Employment Index. The index showed a decline of 12.9% quarter-on-quarter (q/q) in the first quarter of 2009, influenced by the decline in macro-economic activity (-17.1%) and demand for labor (-5.7%). This Qmacro-economic activity (-17.1%) and demand for labor (-5.7%). This trend is expected to continue until the second or third quarter of ¶2010. Construction, logistics and warehousing, communications and information technology, government, and personal services sectors remained robust and were showing net employment growth, according to the index. "The sectors that are under substantial strain and show employment losses are mining, manufacturing, retail and wholesale trade as well as finance, real estate and business services," stated Adsorb Holdings Chief Executive Richard Pike. Certain skills remained in high demand, he noted, particularly in the financial services, engineering, natural and physical sciences, medical and health, education, and information and communication technology

PRETORIA 00001247 002.2 OF 004

sectors. The remuneration index was also down by 5.6%. Salary increases were tracking at between 8% and 9%, but were expected to decline to between 6% and 8% by the end of 2009. Some companies are in their third round of employment cuts as they struggle to remain afloat in the face of lower demand, and other cuts are still to come. (Fin24, June 17, 2009)

----- Zuma and Manuel Scold COSATU for Threats of Labor Unrest -----

¶5. (U) South African President Jacob Zuma and Minister in Charge of National Planning Trevor Manuel questioned the motives and effectiveness of persistent strike threats made by the Congress of South African Trade Unions (COSATU) at the World Economic Forum meeting that took place in Cape Town June 12-14. Zuma criticized COSATU's multiple threats of labor unrest, including planned strikes against Cape Town Premier Helen Zille's all-male cabinet, the South African Reserve Bank's interest rate policies, government-supported bus rapid transit implementation, and low public sector wages. Zuma argued that strikes may exacerbate the effects of the global economic downturn and deter foreign investment. Manuel further suggested that businesses should take a more active role in standing up to industrial action, and warned labor that excessive striking would limit its effectiveness as a tool. A COSATU delegation met with members of government to discuss the tension that has escalated between the government and labor. COSATU characterized the meetings as positive but declines to back down. The trade union federation issued a press statement noting the distinction between Zuma's and Manuel's remarks. COSATU praised Zuma for emphasizing negotiation but criticized Manuel because they believe he is attempting to marginalize of the role of organized labor. COSATU's push for power in the new Zuma administration is being heavily monitored by the South African press. (Business Times - June 13, 2009; The Star - June 16, 2009; Business Report - June 17, 2009; COSATU Press Statement, June 15, 2009)

Minister Holds Out Olive Branch to
White Commercial Farmers

¶16. (U) Minister of Agriculture Tina Joemat-Pettersson has offered an olive branch to organized agriculture by acknowledging that without white commercial farmers, neither transformation nor food security can be achieved in South Africa. The Department of Agriculture's mandate was to turn South Africa into a net exporter of food, Joemat-Pettersson stated. She added, "We recognize that without organized agriculture we cannot have a turnaround strategy for agriculture in this country." Joemat-Pettersson reassured the agricultural sector that assistance would not be confined to subsistence farmers and that commercial agriculture was vital to the turnaround strategy. Creative solutions for white farmers would be sought in the form of joint ventures with black farmers. "If 30% of agricultural land is to be in black hands, then there has to be an alternative for white farmers because we do not seek to drive them from the land," Joemat-Pettersson insisted. Joemat-Pettersson's predecessor Lulu Xingwana had earned the ire of white farmers for accusing them of brutalizing farm workers. Not all white farmers abused the human rights of their workers, Joemat-Pettersson countered, and the government would be strict in enforcing the security of tenure of farm workers and their conditions of employment. Joemat-Pettersson said she intended to bring all of the agricultural unions closer to one another and closer to the government because there was too much distance between them. (Business Day, June 19, 2009)

Trade and Industry Minister Discusses
Future of South African Trade Policy

¶17. (U) Trade and Industry Minister Rob Davies expressed "grave concerns" about some of the clauses in the interim economic partnership agreement (EPA) between the European Union and three members of the Southern African Customs Union (SACU), but he emphasized that the EPA should not be allowed to undermine SACU. "We don't want the EPA process to create tension in SACU ... South

PRETORIA 00001247 003.2 OF 004

Africa is in favor of deeper integration in SACU." Davies also commented on the restructuring of the Department of Trade and Industry (DTI). He does not plan to dismember the DTI, but rather to create a department that could give greater predictability. The department would consider redrafting the industrial policy action plan but not the national industrial policy framework, Davies noted. The new plan would be a three-year plan linked to the mid-term expenditure framework. (Business Day, June 17, 2009)

Delta Suspends Cape Town Flight

¶18. (U) Delta Airlines has confirmed plans to suspend its Cape Town-Atlanta service at the end of August. "Given projected demand levels, Delta confirms that it will be suspending its Cape Town-Atlanta service via Dakar," said Delta Africa, Middle East, and India Sales Director Jimmy Eichelgruen. The last service from Atlanta to Dakar will operate on August 28 and from Dakar to Cape Town on August 29. The last service from Cape Town to Atlanta, via Dakar will depart on August 29. Delta remains committed to the South Africa market and operates a daily, year-round, non-stop service between Johannesburg and Atlanta. (Travel Hub, June 14, 2009)

South African Tourism Resilient
During Tough Times

¶19. (U) South Africa's tourism sector would suffer from the global economic downturn, but it had proved more resilient than other

sectors with 6.4% more foreign arrivals in January 2009 than in January 2008. This data compares favorably with international trends. Provisional figures from the United Nations World Tourism Organization indicated a fall of 8% in global international arrivals for the first two months of 2009 against a 2% rise in 2008. South Africa has bucked the negative global trend before. There was a 5.5% y/y increase in foreign arrivals and 23.5% growth in foreign direct spending in 2008. South Africa has been "spared the worst," stated Minister of Tourism Marthinus Van Schalkwyk. Opportunities created by the 2010 Soccer World Cup would stimulate a more rapid recovery in foreign tourism demand in Southern Africa and would help the local tourism sector build greater resilience against future external economic shocks, he added. More could be done, Van Schalkwyk said, to diversify South Africa's tourism products, develop skills, reduce long visa processing times, ensure affordable and more competitive air access, and develop rural tourism infrastructure. Van Schalkwyk urged the tourism industry to not price itself out of the market, especially during 2010. (Business Day, June 19, 2009)

Gold Firms and Unions Meet Over Wages

¶10. (U) Labor unions demanding a wage increase warned last week of a potential strike in the gold sector after wage negotiations deadlocked. Labor unions sought a 15% increase, while AngloGold Ashanti and GoldFields offered 7%. The current wage agreement would lapse on June 30. South African labor courts have agreed to mediate the dispute. Independent trade union Solidarity spokesperson Jaco Qthe dispute. Independent trade union Solidarity spokesperson Jaco Kleynhans commented, "A strike will not be good for the gold industry's image right now, but workers cannot be satisfied with not earning a living wage and getting an increase below the current consumer price index rate." Kleynhans added, "Some want to compensate their workers, reach an agreement and carry on with production at the mines. Other producers first want to play a power game that stirs up emotions and could result in a possible strike. The Chamber of Mines forgets that the mines screeched to a halt for five days four years ago when the National Union of Mineworkers and Solidarity went on strike." The Chamber of Mines and labor unions reached a similar deadlock over a 7.75% increase in 2007. The National Union of Mineworkers and Solidarity had demanded a 15% increase. Labor unions finally accepted increases of between 8.5% and 10% for workers in the gold mining sector. (Mining Weekly, June 17, 2009)

PRETORIA 00001247 004.2 OF 004

----- --
Westinghouse Expert to Highlight Chinese
Localization Model During Visit to South Africa
----- --

¶11. (U) Nuclear equipment vendor Westinghouse Electric Company is continuing to emphasize its technology-transfer and localization model as the main pillar of a possible bid to the South African government and Eskom for the supply of its third-generation pressure water reactor (PWR) technology. Westinghouse's AP1000 technology has already been assessed, together with Areva's ERP technology, as part of Eskom's 'Nuclear-1' procurement process, which was suspended in December due to Eskom's financial constraints. However, the South African government still wishes to pursue nuclear energy as a way of diversifying away from coal, which currently comprised about 90% of the domestic electricity-supply mix. The Pennsylvania-based company hosted a meeting of more than 100 possible South African nuclear-industry suppliers this week. Westinghouse Project Manager Consortium Director for AP 1000 Technology Transfer and Localization in China Dr. Mark Crump highlighted the localization progress it has made in China and South Korea. Crump also met with South African government officials, officials from the U.S. and China, and members of the Nuclear Industry Association of South Africa on the model approach it has taken in China and South Korea. Westinghouse has a solid record with regard to technology transfer, Crump noted. Westinghouse is building four AP1000 reactors in China. Westinghouse South Africa Regional Vice President Rita Bowser said

she was looking forward to greater certainty from the South African government as to the future trajectory of South Africa's nuclear energy program. (Engineering News, June 19, 2009)

Poverty and Dropout Rates

¶12. (U) Research by the University of Cape Town's Children's Institute (CI) indicates that poverty is "unlikely to be a sufficient explanation" for the high number of children who drop out of school. This is because the Gauteng and Western Provinces, by far the two wealthiest provinces, had the largest percentage of children out of school. Education experts have recently highlighted their concern regarding the high drop-out rate after grade 9, when compulsory schooling ends. Other research from University of the Witwatersrand's School of Education found that absolute poverty did not directly contribute to absence, although it could cause late entry and slow progress. The same research found that relative poverty - how children experience poverty in relation to others - and social exclusion were key drivers of drop-out rates in grades 1-9, while the poor quality of education was the key driver for grades 10-12. There was also evidence that the government's no-fee schools policy, which this year aims to reach 60% of the country's 25,000 public schools, went "some way" to improving access to education. CI researcher Katherine Hall said that increased funding did not imply sufficient funding, and did not necessarily result in an improvement in quality. This is because school funding does not include teacher salaries, which limits the impact of greater school funding on student outcomes. CI Director Prof Shirley Pendlebury said that meaningful access to education required well-conceived textbooks and other learning materials, competent and prepared teachers able to use a range of classroom practices, a curriculum that built a strong basis during the foundation phase, teaching facilities and resources such as laboratories and well-stocked libraries, and a safe and supporting environment. Gauteng and Western Cape Provinces are also the two provinces with the greatest loss in ANC support during the April 22 national elections. (Business Day, June 19, 2009)